



# **CURRENCY**

## **Committee on Financial Services**

**Michael G. Oxley, Chairman**

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### **Baker Subcommittee to Hear from Regulator on Testing GSEs' Financial Strength**

The House Financial Services Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, chaired by Rep. Richard H. Baker (LA), will hold a hearing at 2 p.m. August 1 in room 2128 of the Rayburn Building.

The Subcommittee will hear from the director of the Office of Federal Housing Enterprise Oversight (known as OFHEO), which regulates the safety and soundness of two housing government sponsored enterprises (GSEs) - Fannie Mae and Freddie Mac.

Director Armando Falcon, Jr. will testify on a regulation recently finalized by OFHEO to ensure that Fannie Mae and Freddie Mac are adequately capitalized. The rule was required by legislation creating OFHEO in 1992.

"I look forward to hearing from the director of OFHEO about the rule, which I consider a first big step on the path to regulatory reform of these housing finance giants," said Rep. Baker. "My hope is that there will be no further modification or delay of the rule. And while it's too early to assess the impact the rule may have upon implementation, I believe it will be helpful for the subcommittee to hear Mr. Falcon explain how his team's hard work has moved us closer to protecting the interests of American taxpayers."

Known as a "risk-based capital rule" or a "stress test," the regulation requires that, in addition to the current leverage capital requirement based on a percentage of assets, the GSEs will have to meet a second capital requirement tied to each GSE's risk exposure.

OFHEO's stress test, to be run quarterly, will determine the amount of capital each GSE needs to survive a ten-year period of severe economic stress in the housing and credit markets, plus an additional amount for internal management and operations risk.

The stress period is characterized by large credit defaults and movements in interest rates, prescribed by the 1992 legislation. For the purposes of the test, the GSEs are also assumed to cease doing new business and cannot sell assets to raise cash.

This is the fourth in a series of hearings the Subcommittee has held on regulatory reform of the GSEs. Chairman Baker has introduced legislation, H.R. 1409, to strengthen oversight of Fannie and Freddie by shifting regulatory responsibility to the Federal Reserve.

Scheduled to testify:

- Armando Falcon, Jr., Director, OFHEO

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